



Dudley Council for Voluntary Service

Factsheet 25

Charity Registration The Advantages and Disadvantages of becoming a Registered Charity

The advantages and disadvantages of becoming a charity are considered below:

The Advantages of being a Charity

- Jurisdiction of Charity Commission

The public and sponsorship bodies can be confident that the charity is administered correctly and the funds will be used for the purpose for which they are intended. Fund raising may therefore be easier than for noncharitable organisations.

- Advice

The Charity Commission can provide advice and information to assist charity administration.

- Tax

Income earned by charities undertaking primary purpose or ancillary trading will be exempt from **Income Tax** provided the income is applied for charitable purposes;

Charities are not liable to pay **Corporation Tax** which is charged on clubs, societies and voluntary organisations;

Exemptions from **Inheritance Tax** apply on gifts and undervalue transfers to charities;

Stamp Duty does not apply on transfers or conveyances to a charity;

Gains accrued when charities apply assets for charitable purposes are exempt from **Capital Gains Tax**.

There is further information on the Inland Revenue website: www.inlandrevenue.gov.uk
In particular Annex 1 – Charitable Tax Exemption, go to
www.inlandrevenue.gov.uk/charities/annex_i.htm

Only 20% of the normal **business rate** is paid by charities on buildings which are occupied for their charitable purposes. A 100% exemption can be applied at the discretion of the local authority. You need to apply in writing to the Revenue and Finance Centre, Dudley MBC. You will then receive a form to be completed and returned.

The **Gift Aid** scheme allows charities to reclaim the tax on donations from individuals. Businesses receive tax relief when they make donations to charity.

• VAT

There is no blanket exemption for charities from the VAT system. However, certain supplies made to charities are specifically relieved from VAT. These supplies include:

- Some advertising services;
- Certain sound recording equipment supplied to charities caring for the blind;
- Certain sea rescue equipment;
- Goods donated to charities for sale or export;
- Certain construction services;
- Certain supplies of donated medical and scientific goods.

This list is not exhaustive. You will find further details and information on VAT on the Customs and Excise website: www.hmce.gov.uk. Look for notice 701/1 on Charities. The Customs and Excise help line telephone number is: 0845 010 9000.

Only those charities that are registered for VAT purposes can reclaim the VAT they are charged, and even then there may be restrictions on the amount they can recover. VAT that can be reclaimed is referred to as input tax. Again these is more information on the Customs and Excise website.

Charities must register for VAT purposes when the income from their taxable business supplies exceeds a certain limit. The current VAT registration threshold is £58,000 (1 April 2004), however this threshold is regularly reviewed and generally increases with each Budget. Charities can also apply to voluntarily register for VAT purposes if they make taxable supplies below this limit. Further details and information can be found on the website in Notice 700/1 Should I be registered for VAT?

The Disadvantages of Being a Charity

- Exclusively charitable

An organisation with a range of activities, including non charitable activities, could find that charitable status restricts its current activities. The objects of a charity must be exclusively charitable.

Political or campaigning organisations are unlikely to be afforded charitable status.

- Limited Trading

There are rules limiting the fund raising and the extent of trading that can be carried on by charities. Charities therefore often require a separate charitable company to undertake their trading activities.

- Limits on Trustees

Trustees are not generally allowed to benefit financially from the charity, unless, in limited circumstances specified by the charity's governing document or the Charity Commission. They can only recover reasonable expenses. Trustees must also avoid personal interest, which would conflict with acting in the best interests of the charity.

- Administration

There are administration requirements imposed upon charities including Annual Returns and financial reporting.

Compulsory Registration as a Charity

Under the Charities Act 1993, organisations with exclusively charitable purposes and an income of over £1,000 must register as a charity.

There is a great deal of information on the Charity Commission website: www.charity-commission.gov.uk Their helpline is also very good: 0870 333 0123.

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